



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE REGULATION
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
STANLEY "SKIP" PRUSS, DIRECTOR

KEN ROSS
COMMISSIONER

BILL ANALYSIS

BILL NUMBER: HB 5629, as introduced

TOPIC: Remove reasonable degree of competition as a measure of whether auto insurance rates are excessive

SPONSOR: Rep. Ellen Cogen Lipton

CO-SPONSORS: Reps. Lesia Liss, Harold Haugh, Vincent Gregory, Dian Slavens, Kate Segal, Douglas Geiss, Jon Switalski, LaMar Lemmons, Bob Constan, Rashida Tlaib, Lisa Brown, Mike Huckleberry, Robert Jones, George Cushingberry, Fred Durhal, Jimmy Womack, Coleman Young, David Nathan, Woodrow Stanley, Sarah Roberts, Lee Gonzales, Gabe Leland

COMMITTEE: House Committee on Insurance

Analysis Done: December 2, 2009

POSITION

The Office of Financial and Insurance Regulation (OFIR) supports this legislation.

PROBLEM/BACKGROUND

The Michigan Essential Insurance Act (EIA) was enacted in 1979 to ensure that consumers have access to automobile and homeowners insurance and that rates are competitive and fair. Rate regulation is used to ensure that rates are adequate, not excessive or unfairly discriminatory.

The EIA requires a finding of a lack of statewide competition before a rate can be found to be excessive. The statute defines the factors upon which competition must be evaluated. Included in the factors are the number of insurers actively marketing insurance in the state, availability of insurance, underwriting returns, and difficulty for new insurers entering the market. If a rate is found to be excessive after using the cited factors, then the Commissioner can order an insurer to file rates for the insurance under a separate provision of the Insurance Code.

As auto insurance rates have increased, so has the call for additional control over these rising costs. Since auto insurance is mandatory in Michigan, due process demands that the

Commissioner has the tools necessary to protect Michigan citizens from rates that are excessive and unaffordable.

DESCRIPTION OF BILL

The proposed legislation would amend the Insurance Code to remove a reasonable degree of competition as a measure of whether auto insurance rates are excessive. The proposed legislation is tie-barred with House Bill 5627, House Bill 5628 and House Bill 5630.

SUMMARY OF ARGUMENTS

Pro

Mandating that drivers maintain insurance coverage without effective rate regulation has frustrated consumers and policy makers. The existence of statewide competition has done little to provide affordable insurance products to drivers in high cost areas of the state.

Con

Attempting to change these standards may lead to an increase in the use of actuarial services by OFIR to review rates and these increased costs will be passed on to the industry.

FISCAL/ECONOMIC IMPACT

OFIR has identified the following revenue or budgetary implications in this bill:

(a) To the Office of Financial and Insurance Regulation:

Budgetary:	OFIR would incur additional expense to hire, train and maintain adequate staff to perform reviews of all auto insurance company rate filings.
Revenue:	Because OFIR is a restricted revenue agency, these additional costs would have to be passed on to insurance companies in the state.

Comments:

(b) To the Department of Energy, Labor & Economic Growth: None known.

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan: None known.

Budgetary:

Revenue:

Comments:

(d) To Local Governments within this State: None known.

Comments:

OTHER STATE DEPARTMENTS

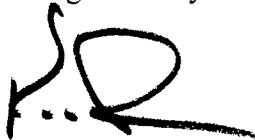
None known.

ANY OTHER PERTINENT INFORMATION

None known.

ADMINISTRATIVE RULES IMPACT

The proposed legislation would amend the Michigan Insurance Code. OFIR has general rulemaking authority under the Insurance Code, 1956 PA 218.



Ken Ross
Commissioner

12.2.09

Date

